



FINAL REPORT

Telecommunications Company Property Tax Review Committee

February 2016

MEMBERS:

Senator Janet Petersen,
Co-chairperson
Senator Chaz Allen
Senator Randy Feenstra

Representative Thomas R. Sands,
Co-chairperson
Representative Zach Nunn
Representative Todd Prichard

Staff Contacts:

Michael Duster, Senior Legal
Counsel, (515) 281-4800
michael.duster@legis.iowa.gov

Michael Mertens, Legal Counsel,
(515) 281-3444
michael.mertens@legis.iowa.gov

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AUTHORIZATION AND APPOINTMENT

The Telecommunications Company Property Tax Review Committee was established pursuant to Senate File 295 (2013). The committee is charged with reviewing the information and recommendations included in a report required to be submitted by the Department of Revenue detailing recommendations for changes to the current system of assessing telecommunications company property and levying property tax against telecommunications services companies.



Telecommunications Company Property Tax Review Committee

I. Committee Proceedings

The Legislative Council authorized the committee to meet for one meeting during the 2015 Legislative Interim. The committee met on Friday, December 18, 2015.

II. Review of Telecommunications Property Tax System and Report

Ms. Victoria Daniels, Legislative Liaison, Ms. Julie Roisen, Property Tax Division Administrator, Mr. Roland Simmons, Property Appraiser, and Ms. J.J. Severson, Attorney, appeared on behalf of the Department of Revenue (DOR) to provide background information on the property tax assessment process for telecommunications companies and to provide a summary of the report issued by DOR on August 1, 2015. Mr. Simmons stated that there are currently 219 telecommunications companies assessed under Iowa Code chapter 433 and described the various types and quantities of companies among that group, including local exchange carriers, municipal providers, competitive long distance companies, and voice over Internet protocol (VOIP) companies. Currently, there are 463,254 line miles of telephone cable in the state, of which 57 percent is buried metal cable, 28 percent is buried fiber cable, 9 percent aerial metal cable, and 6 percent aerial fiber cable. Mr. Simmons provided data on the amount of telecommunications company-assessed value attributable to various property types in the state. The total assessed value is comprised of 60 percent cable, 21 percent central office equipment, 14 percent buildings, 2 percent land, and 2 percent miscellaneous property. Mr. Simmons also described the types of property that are taxable under the current system depending on the type of telecommunications provider.

Ms. Daniels reviewed the legislative action that led up to the passage of Senate File 295 in 2013. The legislation included a tiered property tax exemption for telecommunications companies and the requirement for both the DOR study and report and the establishment of the committee. Ms. Daniels identified the challenges DOR faced in convening meetings of the interested parties relating to the study of the current telecommunications property tax system. She also provided an overview of the taxation systems used by neighboring states, including Illinois, Minnesota, Nebraska, South Dakota, and Wisconsin. According to DOR, the tiered valuation exemption enacted in SF 295 has, upon being completely phased in, resulted in a cumulative property tax reduction of \$19.54 million statewide in 2015. Ms. Daniels also discussed the implementation and rulemaking process for the 2015 broadband initiative enacted by the General Assembly to incentivize increased broadband access to underserved areas of the state. According to Ms. Daniels and Ms. Roisen, the rulemaking process is ongoing for the broadband initiative and DOR anticipates further involvement by stakeholders during the rulemaking process.

Ms. Daniels summarized recent Iowa Supreme Court cases that addressed challenges to the taxation of companies providing telecommunications services. In *Qwest v. Iowa State Board of Tax Review*, the Court held that differential tax treatment among the different types of telecommunications providers is rationally related to legitimate state interests in encouraging the development of new competitive telecommunications infrastructure. More recently, in *Kay-Decker v. Iowa State Board of Tax Review and Cable One, Inc.*, the Court determined that the VOIP services provided by Cable One, Inc. were equivalent to operating a telephone line within the



meaning of Iowa Code chapter 433, thereby making them subject to assessment under that Iowa Code chapter.

As part of the DOR report, representatives from the telecommunications industry submitted comments regarding the inequities and insufficiencies of the current assessment and taxation system. Many of the comments focused on the dramatic changes in the telecommunications industry and the obsolescence of Iowa's current approach to assessment and taxation. Ms. Daniels and Ms. Roisen also expressed concerns held by many in the telecommunications industry that the legislative process is incapable of adequately keeping up with the technological growth seen in the industry.

III. Telecommunications Industry Panel

Mr. Michael Sadler, Assistant Vice President, Public Policy and Government Relations, CenturyLink, provided an overview of CenturyLink's services throughout the United States and internationally and noted that Iowa often stands out negatively when reviewing the costs of providing services to consumers and making investment decisions. Mr. Dustin Blythe, Director of External Affairs, AT&T, discussed the increasingly diverse types of services provided by AT&T and how the taxation and regulation environment in Iowa can be a deterrent when allocating limited investment dollars among various markets. Mr. Tom Graves, consultant for Mediacom, identified the complexities in evaluating the taxation of Mediacom. This complexity is due to the fact that its cable property is assessed by local assessors and its telecommunications property is centrally assessed by DOR. Mr. Graves noted the difficulty in assuring that the value of Mediacom's property is not being assessed and taxed multiple times. Mr. Kevin Condon, Director of Public Affairs, Iowa Communications Alliance, identified the difficulties in addressing the needs of all 125 providers represented by the alliance due to each provider's uniqueness. Mr. Condon recommended a recent National Conference of State Legislatures report on telecommunications taxation that highlights many of the issues before the committee.

All members of the panel acknowledged the benefits of the exemption established in SF 295, but urged the committee to continue to review the inequities created through the assessment of personal property. Several panel members also stated that despite the recent legislative changes and other available financial assistance, many investment decisions are still facing narrow cost margins. The panel members cited not only the inequity among the various types of providers within Iowa, but the inequity as compared to the assessment of property in other states.

IV. Committee Discussion

Committee members questioned representatives of DOR and the telecommunications industry on the current differences between Iowa's telecommunications providers and taxation system and those of neighboring states and how those differences impact the level and types of services being provided in Iowa. Committee members also sought recommendations for sources of information to better evaluate both the current system in Iowa and those systems in neighboring states and recommendations on the types of changes the industry would like to occur. Committee members additionally questioned whether incremental changes to the tax system are needed or whether



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alternatives to ad valorem taxation are appropriate. Several members of the committee also identified the increasing demand by consumers and the increased interconnectedness with other industries, like education and agriculture, as a source of the large growth in the telecommunications industry in Iowa. Committee members expressed interest in further analysis of the increased services being provided in the state following enactment of the property tax exemptions in 2013 and the broadband initiative in 2015. Concerns were raised regarding the impact any proposed changes to the telecommunications property tax system would have on local and state budgets.

V. Materials Filed with the Legislative Services Agency

The following materials listed below were distributed at or in connection with the committee's meeting and are on file with the Legislative Services Agency. The materials may be accessed from the "Committee Documents" link on the committee's Internet Site:

<https://www.legis.iowa.gov/committees/committee?ga=86&session=2&groupID=24161>

1. Iowa Department of Revenue Presentation, Ms. Victoria Daniels.
2. Iowa Department of Revenue Telecommunications Property Tax Report.

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